

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

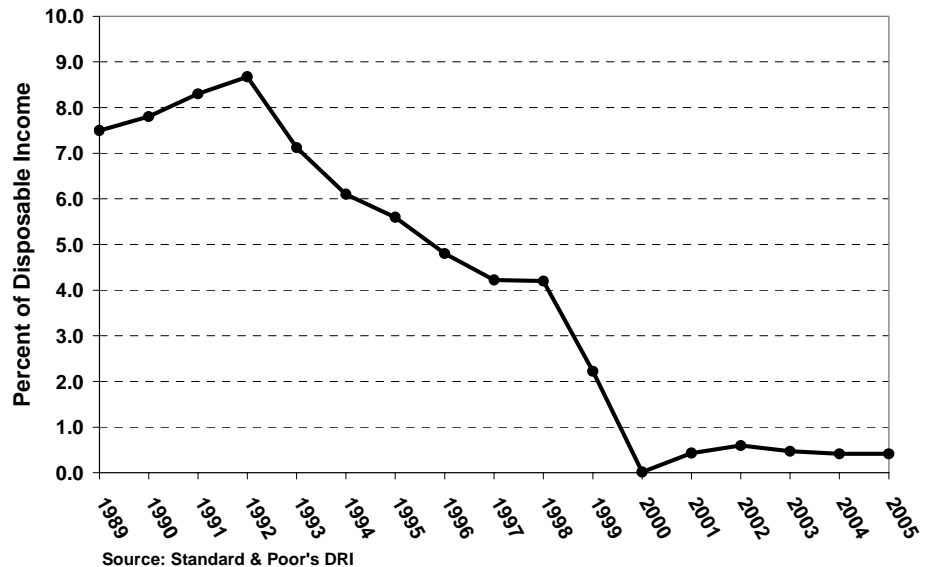
STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

DECEMBER 2000 VOLUME XXI NO. 6

This holiday edition of the *Idaho Outlook* is directed at those of us who have overspent our Christmas budgets and have resolved to tighten our personal finances before the first of the credit card bills arrive. The good news is that our finances may be in better shape than we thought. Although the U.S. is enjoying its longest economic expansion, there is the nagging fear that it is being paid for by mortgaging our futures. For example, the saving rate has declined every year since 1992. By autumn of 2000, the saving rate was actually negative. However, the savings picture may not be as dim as it seems. In order to understand this we should explain how the federal government defines the personal saving rate. Basically, current expenditures are subtracted from after-tax (disposable) income to arrive at savings. The ratio of savings to personal income is the personal saving rate. Generally speaking, a rise in personal income raises the personal saving rate. And a drop in personal income drops the personal saving rate.

U.S. Personal Saving Rate



In a recent article published by the Federal Reserve Bank of New York, economists Richard Peach and Charles Steindel point out several reasons why the saving rate may be higher than current government estimates. First, personal income is underestimated because it does not include capital gains. It is excluded because personal income measures only income from current production such as wages. Given the stock market's run up over the last several years, it appears a major source of household income is being ignored. Second, although capital gains are not included in income, the taxes paid on realized capital gains are subtracted from personal income. However, there is a good chance that these taxes are being paid out of the realized capital gains themselves and not personal income. Thus, current national income accounting practices bias personal income and the personal saving rate downwards. Third, employer contributions to defined-benefit pension plans are counted toward personal income. These contributions have been held down in recent years because the soaring stock market raised the value of the assets in these plans and reduced the need for employer contributions. This reduces the saving rate. Peach and Steindel attempted to adjust for some of the above shortcomings. They found that by removing capital gains taxes from income and saving, the recent level of personal saving would increase 1.5 percentage points. If capital gains realizations were added into personal income, the 1999 saving rate would be 7.25 percentage points higher than official estimates, even after accounting for capital gains taxes.

Debt has also been a concern recently. Indeed, the ratio of outstanding consumer credit to disposable personal income is expected to have topped 21% in 2000—a level that seemed unimaginable just a few years ago. While every household's debt situation is unique, the aggregate situation is positive. For example, the amount of debt relative to household assets has shrunk. Once again, the rising stock market played a large role in this improvement. DRI reports that the household assets are currently about six times household income—up from the traditional four to five. The existing debt that may also be more easily serviced thanks to lower interest rates. Perhaps this explains why delinquency rates on consumer installment loans have been declining since 1997 and non-business bankruptcies have retreated since 1999. Finally, the authors show that wage and salary growth—from which the bulk of spending comes—has grown faster than personal consumption until recently. This challenges the notion that American consumers are living beyond their means.

The Division of Financial Management staff wishes everyone a happy holiday and a prosperous new year!

DIRK KEMPTHORNE, Governor

**Division of Financial Management
700 W Jefferson, Room 122
PO Box 83720**

**Boise, Idaho 83720-0032 (208) 334-3900
ADDRESS SERVICE REQUESTED**

**BULK RATE
US POSTAGE
PAID
PERMIT NO. 1
BOISE, ID 83720**

Darrell Manning, Administrator

Economic Analysis Bureau

Michael H. Ferguson, Chief Economist

Derek E. Santos, Economist

General Fund Update

As of November 30, 2000

<u>Revenue Source</u>	\$ Millions		
	FY00 Executive Estimate ³	DFM Predicted to Date	Actual Accrued To Date
Individual Income Tax	1022.1	341.4	356.9
Corporate Income Tax	136.4	38.2	24.8
Sales Tax	665.7	287.6	284.2
Product Taxes ¹	20.6	9.0	9.0
Miscellaneous	106.6	39.4	65.0
TOTAL GENERAL FUND²	1951.4	715.6	739.8

¹ Product Taxes include beer, wine, liquor, and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of August 2000

General Fund revenue was slightly (\$2.3 million) higher than expected in November due entirely to the timing of a transfer that had been forecast in August. This has brought year to date General Fund revenue to a level \$24.2 million higher than the predicted amount. Revenue collections among the big three categories (Individual Income, Corporate Income, and Sales Taxes) were \$2.6 million below expectations in November, and for the first time this fiscal year, are below the year-to-date predicted level (by \$1.3 million). Continued strength in Individual Income Tax is more than offset by weakness in the Corporate Income and Sales taxes—both in November and on a year-to-date basis.

Individual income tax collections in November were \$3.3 million higher than projected. Withholding collections were \$5.6 million higher than forecast (a reflection of large bonuses). This strength was partially offset by refunds that were \$1.7 million higher than predicted. As of November 30, the individual income tax stands \$15.5 million higher than anticipated, and most of this excess is due to stronger-than-expected withholding collections.

The Corporate Income Tax was \$5.7 million lower than projected in November, and is down \$13.4 million for the fiscal year to date. The Corporate Income Tax has been below expectations every month of FY 2001 so far. The weakness is spread over filing collections (down \$2.3 million), estimated payments (down \$5.9 million) and refunds (up \$5.6 million).

Sales Tax collections were \$0.2 million lower than forecast in November, bringing fiscal year-to-date collections to a level \$3.4 million below the predicted amount. This is the third consecutive month that Sales Tax has come in below expectations this fiscal year. Reports of weak holiday sales at both the state and national levels do not bode well for this revenue category.

Product Taxes came in exactly on target in November. Miscellaneous Revenue was \$4.9 million higher than expected for the month of November, but this was almost entirely due to the receipt of a large, one-time transfer that had been expected in August. On a year to date basis, the Miscellaneous category is \$25.5 million higher than expected. Over 80% of this excess is due to a single, unusually large, estate tax receipt that was collected in October. The remainder of the Miscellaneous category excess is due to higher-than-anticipated insurance premium tax and treasurer interest earnings. Both are believed to be the result of payment timing.